13 Government Participation in Real Estate Finance

This chapter discusses three government programs which are very important to the California real estate industry:

1. the mortgage insurance program of the Federal Housing Administration;
2. the mortgage guaranty program of the United States Department of Veterans Affairs; and
3. the mortgage loan program of the California Department of Veterans Affairs.

The reader should be aware that the programs offered by these agencies change regularly.

THE FEDERAL HOUSING ADMINISTRATION

The Federal Housing Administration (FHA) is part of the U.S. Department of Housing and Urban Development (HUD). Since 1934, FHA has offered mortgage insurance programs which help people obtain financing for homes. (HUD Web site: http://www.hud.gov/)

FHA mortgage insurance allows a homebuyer to make a modest down payment and obtain a mortgage for the balance of the purchase price. The loan is made by a bank, savings and loan association, mortgage company, credit union, or other FHA-approved lender. FHA insures the loan and pays the lender if the borrower defaults on the mortgage. (Of course, if the property is readily saleable at a price which exceeds the amount of the loan including all charges, the lender will undoubtedly sell the property and not apply for FHA funds.) Because of this insurance, the lender may offer more liberal terms than the prospective homeowner might otherwise obtain.

Qualifying

A person with a satisfactory credit history, enough cash to close a loan, and sufficient steady income to make the monthly payments should be able to qualify for an FHA-insured mortgage.

For the most part, FHA mortgages are limited to owner-occupied properties. One exception is the rehabilitation insurance program, which is available to investors.

Special terms are available to qualified veterans. The veteran must present a *Certificate of Veterans Status* from the Department of Veterans Affairs. There is no limit on the number of times an eligible veteran can use this FHA privilege.

Types of Properties and Mortgages

Primarily, FHA insures mortgages for:

1. the purchase of existing and newly built single family homes and condominiums;
2. home improvements;
3. the purchase and repair of houses needing rehabilitation;
4. the purchase of two-, three-, and four-unit properties; and
5. the refinancing of existing mortgages.

An FHA-insured loan can be fixed rate, adjustable rate, graduated payment, or growing equity.

A fixed rate mortgage features an interest rate which stays the same for the term of the loan. The payment will also remain constant unless amounts included for taxes and insurance change.

With an adjustable rate mortgage (ARM), the interest rate and payment may increase or decrease during the life of the loan. The initial interest rate on an FHA ARM will stay the same for the first twelve or eighteen months, as specified in the note. Thereafter, the rate will vary with the 1-year Treasury Constant Maturities Index but cannot increase or decrease more than one percent in any year or five percent over the life of the loan.

A graduated payment mortgage (GPM) allows the borrower to make lower payments during the early years of the loan. Then the payments increase annually for several years before leveling off and remaining constant for the balance of the loan term. Because the lower beginning payments do not cover all the interest then due, the loan balance actually increases (negative amortization) during the early years. A GPM may be appropriate for a person who expects his/her income to rise as the years go by and the loan payments increase.

A growing equity mortgage (GEM) requires payments which increase during the early years of the loan, with all of the excess applied to reduce the balance owed. A GEM features early payoff and a reduction in the total amount of interest paid.

Maximum Loan Amounts

Maximum loan amounts for FHA-insured loans vary with the cost of housing. Real estate licensees and their clients should consult with HUD-approved lenders or the local HUD Field Office as to the maximum loan amount for a certain area.

Down Payment

Most FHA programs require a down payment of between 3 and 5 percent of the total cost of the home. The total cost is the purchase price plus closing costs. Total cost does not include prepaid items such as real estate taxes and hazard insurance.

Loan Terms and Prepayment

The costs associated with a loan can vary significantly from one lender to another. FHA does not establish minimum or maximum amounts for interest rates, discount points, and other fees/closing costs for the loan. Rather, these are all negotiable between the borrower and lender. There is no prepayment penalty.

Mortgage Insurance Premium

FHA charges a premium to insure a mortgage. The premiums are used to pay lenders if/when borrowers default on FHA-insured mortgages.

On most FHA-insured mortgages, the borrower must pay an up-front mortgage insurance premium (MIP) and an annual MIP as well. The up-front MIP can be financed into the mortgage.

Applying for an FHA Loan

Having selected a lender, the borrower will fill out a loan application and meet with a loan officer. The borrower will provide his/her most recent bank statement and pay stub, picture identification, proof of social security number, and fees for appraisal and credit report.

Loan Approval

Many lenders are authorized to approve FHA mortgage applications without submitting any paperwork to FHA. These Direct Endorsement Lenders handle most FHA-insured loans. In some cases, however, FHA reviews information submitted by the lender and determines whether the property and the borrower are acceptable risks for an FHA-insured mortgage.

MOST FREQUENTLY USED FHA PROGRAMS

FHA derives its authority to insure mortgage loans from the National Housing Act. This act has eleven main subdivisions called "titles." Real estate licensees and their principals will be concerned mostly with Titles I and II.

Title I - Property Improvement; Manufactured Home Purchase

Title I authorizes FHA to insure lending institutions against loss on loans made to finance alterations, repairs, and improvements to existing structures, and the building of small new structures for nonresidential use.

These loans are made by private lending institutions to borrowers with satisfactory incomes and credit records.

The property can be single-family, multi-family, or non-residential.

A Title I loan may also be used for the purchase of a manufactured home and/or a lot for a manufactured home, so long as the manufactured home is to remain personal property. If the manufactured home is attached to a foundation, and thus real property, a Title II, Section 203(b) loan must be used.

Title II - Home Mortgage Insurance

Section 203(b) of Title II is the most commonly used FHA single family program. Using this program, a borrower may purchase a new or existing one- to four-family home in an urban or rural area. A 203(b) mortgage may have a term of 10, 15, 20, 25, or 30 years.

Section 234(c) provides mortgage insurance for the purchase of a unit in a condominium project. FHA must first approve the project. In part, FHA conditions this approval on an owner-occupancy rate of at least 51 percent.

Section 203(k) authorizes mortgage insurance for the purchase (or refinance) and rehabilitation of a home which is at least one year old. A portion of the loan proceeds are placed in an escrow account and released as rehabilitation progresses. Rehabilitation may involve moving the home to a new foundation at a different site. Also, a Section 203(k) mortgage may be used to convert a non-residential building to residential use or to change the number of family units in a building.

A **Section 203(h)** loan can help a person whose home has been damaged or destroyed because of a major disaster, as declared by the President of the United States. The loan may be used to purchase a new or existing home. No down payment is required.

Section 203(i) authorizes mortgage insurance for rural properties. This could include a farm house on at least 2.5 acres of land adjacent to an all-weather road.

Section 220 allows mortgage insurance for rehabilitation of dwellings with up to eleven family units or to build new dwellings in urban redevelopment areas.

Section 220(h) authorizes insured improvement loans for dwellings with up to eleven family units in urban areas.

Section 221(d)(2) provides home mortgage insurance for low and moderate income families or families displaced by urban renewal, code enforcement, condemnation or by a major disaster.

Section 222 authorizes mortgage insurance for those on active duty with the Department of Transportation (Coast Guard) or the Department of Oceanic and Atmospheric Administration. There is no up front mortgage insurance premium and the employing agency pays the monthly mortgage insurance premium directly to HUD as long as the borrower remains in active service. The borrower must have a certificate of eligibility from the employing agency.

Section 223(e) involves properties in older, declining urban areas.

Section 237 authorizes mortgage insurance for low and moderate income families who are unable to meet normal underwriting standards because of their credit history. To qualify, the borrower(s) must obtain counseling from a HUD-approved agency. These agencies provide budget, debt management, and related counseling services.

Section 238(c) provides mortgage insurance for repair, rehabilitation, or purchase of a home near any military installation in a federally impacted area. The Secretary of Defense must certify the need for additional housing in the area.

Section 240 deals with purchase of a home on leased land.

U.S. DEPARTMENT OF VETERANS AFFAIRS (VA)

Previously known as the Veterans Administration, the United States Department of Veterans Affairs guarantees loans made to eligible veterans by institutional lenders (mortgage companies, savings and loans, banks). We continue to call these VA (not DVA) loans. A VA guaranty on such a loan helps protect the lender against loss if the payments are not made. The intention is to encourage lenders to offer veterans more favorable loan terms. (Benefits Web site: http://www.vba.va.gov)

Purpose of VA Loans

A VA loan will enable a qualified veteran to:

1. buy, build, alter, repair or improve a home or condominium (including a farm residence to be occupied by the veteran as a home);
2. buy a mobilehome with or without the lot; or
3. refinance an existing mortgage on a dwelling owned and occupied by the veteran.

Eligibility

The following individuals are eligible for VA loans:

1. A veteran of active military duty during World War II, the Korean Conflict, Vietnam Era, or Post-Vietnam Era, provided the veteran was discharged or released from active duty under conditions other than dishonorable after active duty of 90 days or more (or because of a service-connected disability), any part of which was during one of the following periods:

   September 16, 1940 to July 25, 1947;

   June 27, 1950 to January 31, 1955; or

   August 5, 1964 to May 8, 1975.

2. A veteran of active duty entirely within the period July 25, 1947 and prior to June 27, 1950 or during any part of the periods after January 31, 1955 and prior to August 5, 1964 or after May 8, 1975 and prior to September 7, 1980 (for enlisted personnel; October 16, 1981 for commissioned officers), provided the veteran was discharged or released from active duty under conditions other than dishonorable from a period of continuous active duty of 181 days or more (or for a service-connected disability). Absent discharge or release, a veteran must have served on continuous active duty at least 181 days.
3. A veteran who originally enlisted in a regular component of the Armed Forces after September 7, 1980 (after October 16, 1981 for a commissioned officer), provided the veteran completes the lesser of twenty-four continuous months of active duty or the full period for which the person was called or ordered to active duty. These minimum service requirements do not apply to individuals still on active duty or those who are discharged or released from active duty for convenience of the U.S. Government, hardship, or a service-connected disability.
4. Any member of the Women's Army Auxiliary Corps who served for at least 90 days and who was honorably discharged therefrom for disability incurred in the line of duty. (This applies only to persons so discharged from the Women's Army Auxiliary Corps prior to the integration of that corps into the Women's Army Corps.)
5. Certain United States citizens who served in the armed forces of a government allied with the United States in World War II.
6. Unremarried surviving spouses of an above-described eligible person who died as the result of service or service-connected disabilities.
7. Service personnel who have served at least 181 days in active duty status, even though not discharged, while their service continues without a break.
8. The spouse of any member of the armed forces serving on active duty who is listed as missing in action, or is a prisoner of war and has been so listed for a total of more than 90 days.

Reservists and National Guard members activated on or after August 2, 1990 for the Persian Gulf Conflict may also be eligible. Questions regarding eligibility should be directed to VA at 1-800-827-1000. VA has two publications which will also be of assistance: "VA-Guaranteed Home Loans for Veterans" (VA Pamphlet 26-4) and "To the Home-Buying Veteran" (VA Pamphlet 26-6). These may be obtained by writing to:

Department of Veterans Affairs
810 Vermont Avenue NW
Washington, D.C. 20420

Guarantee Amounts

For current guaranty amounts, the veteran or agent should contact the VA or a lender who funds VA loans.

Interest Rates Are Negotiable

The interest rate on a VA loan is negotiable between lender and borrower.

Funding Fee for VA Home Loans

VA collects a funding fee for each loan. The fee varies with the amount of the down payment and the status of the borrower (active duty/veteran/reservist). The fee is payable for both VA home and mobilehome loans with the following exceptions:

- veterans receiving VA compensation for service-connected disabilities;
- veterans who elected to receive service retirement pay in lieu of VA compensation; and
- surviving spouses of veterans who died in service or from a service-connected disability.

The funding fee may be included in the loan and paid to VA from loan proceeds without regard to limiting the loan amount to the reasonable value of the property.

Loan Classifications and Loan Structure

VA loans are classified as real estate loans. A real estate loan is any loan used to purchase real property, improved or to be improved. A VA loan may be:

1. a traditional 30-year mortgage with a fixed-rate and term.
2. a Graduated Payment Mortgage, amortized in a manner which allows lower initial monthly payments. The monthly payment increases annually by a fixed percentage during the first five years. At the beginning of the sixth year, the payments become level and remain so.
3. a Temporary Interest Rate Buydown loan, providing that funds be held in an escrow account to subsidize monthly mortgage payments for a set period of time. Most buydown plans run from 3 to 5 years and the escrowed funds may be paid by buyer or seller.
4. an Adjustable Rate Mortgage, with annual interest rate increase limited to one percent. The maximum increase in the interest rate over the life of the loan is five percent.
5. a Growing Equity Mortgage, with a gradual increase in monthly payments. All of the increase is applied to the principal balance of the loan, resulting in growing equity and accelerated amortization.

Manufactured Home (Mobilehome) Loans

A qualified veteran may use a VA loan for the purchase of a manufactured home.

To be eligible for a VA loan, a single-wide manufactured home must be at least 40 feet x 10 feet (400 square feet). A double-wide must be at least 35 feet x 20 feet (700 square feet).

Elimination of the requirement that a veteran have maximum entitlement available for use in order to obtain a loan enables use of remaining entitlement for any eligible purpose, including a manufactured home loan, except that a veteran who obtains a guaranteed loan to purchase a manufactured home may not use remaining entitlement to obtain another manufactured home without first disposing of the previously acquired manufactured home.

The maximum term of a loan for the purchase of a single-wide manufactured home, with or without a lot is 20 years and 32 days.

The maximum term of a loan for the purchase of a double-wide manufactured home without a lot is 23 years and 32 days; with a lot, 25 years and 32 days.

Location. A manufactured home may be located on any VA-approved rental site, or any lot owned or to be purchased by the veteran which has been determined to be acceptable by the VA. A veteran must make certain that the lot location does not conflict with any zoning laws prohibiting manufactured homes. The VA guarantees loans to veterans for the purchase of manufactured homes that are permanently affixed to a foundation, provided the foundation meets VA requirements and the unit and land are taxed as real estate.

Interest rates. The interest rate for a VA manufactured housing loan is negotiable.

Assumability. A VA loan on a manufactured home cannot be assumed unless the purchaser qualifies from a credit standpoint. If the veteran sells the manufactured home and permits the buyer to assume the loan obligation, the veteran will remain liable on the loan unless application is made to VA for a release from liability on the loan and VA grants the release in writing. Further, the veteran will not be eligible to use VA loan entitlement for purchase of another manufactured home until the manufactured home loan is paid in full, regardless of whether or not VA grants the release from liability.

If, however, the buyer obtains new financing in connection with the sale and the VA loan is paid in full, the veteran will have no further liability on the loan and will be eligible to use his or her VA loan entitlement for other purposes.

Refinancing Existing Loans

Veterans may refinance existing mortgage loans or other liens of record on a dwelling owned and occupied by them. Any discount points paid in connection with such refinancing must be reasonable in amount and may be added to the loan, as may back taxes and assessments. The amount of loan may not exceed 90% of VA's reasonable value plus funding fee.

Under the refinancing loan guarantee, a loan may be made:

- solely to refinance the sum due the holder of an existing mortgage loan or other lien indebtedness; or
- to refinance an existing mortgage loan or other lien indebtedness and to provide the veteran with funds for a purpose acceptable to the lender.

A veteran can refinance a VA loan with another VA loan provided:

1. The interest rate of the loan must be less than the interest rate of the loan being refinanced, except that an adjustable rate loan can be refinanced with a fixed rate loan even if the interest rate on the fixed rate loan is higher than the rate currently in force on the adjustable rate loan.
2. The new loan must be secured by the same dwelling or farm residence as secured the loan being refinanced and such dwelling or residence must be owned and occupied by the veteran or his/her spouse.
3. The amount of the loan may not exceed an amount equal to the sum of the balance of the loan being refinanced and such closing costs (including any discount points permitted) as may be authorized by the Secretary.

Term. Interest rate reduction refinancing loans may have a term of up to 10 years longer than that of the original loan, to a maximum of 30 years and 32 days.

A refinance loan shall be deemed to have been obtained with the guaranty entitlement used to obtain the loan being refinanced. Therefore, the loan may be guaranteed without regard to the amount of outstanding guaranty entitlement available for use by the veteran, and the amount of the veteran's guaranty entitlement shall not be charged as a result of any guaranty provided for such purpose.

Surviving spouse. If a veteran is deceased and the veteran's surviving spouse is a co-obligor under an existing VA loan, the surviving spouse is entitled to refinance the loan with another VA loan. Like a veteran, the surviving spouse will be permitted to pay a reasonable discount in connection with obtaining a VA loan to refinance an existing VA home or mobilehome loan.

Condominiums

VA guarantees loans for the purchase of one-family residential units in a project converted or proposed to be converted to condominium ownership, provided the governing documents for the project meet VA Regulations and the project or unit has been approved by VA on or after July 1, 1979. The VA approach to this program area is intended to be of sufficient flexibility to provide protection to veterans as potential homeowners and to VA as guarantor while assuring the viability of the program. The following definitions apply to this program:

- **Existing Condominium.** A condominium project originally built and sold as a condominium where all on-site and off-site improvements were completed prior to appraisal by VA.
- **Converted Condominium.** A project or structure not originally built or sold as a condominium but subsequently converted to a condominium and approved by VA on or after July 1, 1979.
- **Proposed Condominium.** A condominium project that is to be constructed or is under construction.
- **High-Rise Condominium.** A condominium project which is a multi-story elevator building.
- **Low-Rise Condominium.** A condominium in which all or part of a living unit extends over or under another living unit. Such a project may contain one or more elevators. (Also known as a garden apartment project.)
- **Horizontal Condominium.** A condominium project in which generally no part of a living unit extends over or under another living unit. These (detached, semi-detached, row, and quadruplex) projects are designed in a manner similar to most planned developments.

When Sales Price Exceeds Amount Shown on VA Certificate of Reasonable Value (CRV)

Prior to signing an offer or contract creating a legal obligation to pay a purchase price or cost which exceeds the amount shown on a CRV, a veteran must be informed of the reasonable value established by VA. If a veteran signs a sales agreement before the CRV is available, the contract must provide that if the purchase price exceeds the VA reasonable value, the veteran may either affirm the contract and complete the transaction or withdraw from the transaction and receive a refund of the deposit without further legal liability or obligation.

Down Payment

In the case of a home or condominium loan, the VA does not usually require a down payment. The lender, however, may require one. A VA loan cannot exceed the VA reasonable value plus funding fee. Any difference must always be paid by the veteran in cash from personal resources.

VA usually requires a 5 percent down payment for manufactured homes. However, a lender may require a larger down payment.

Discount Points and Prepayment

The payment of loan discount points is a matter for negotiation between the buyer, seller, and lender. There is no prepayment penalty.

Energy Conservation Measures

A VA loan may be used to improve a dwelling or farm residence with solar heating/cooling or some other qualified residential energy conservation measure. The interest rate on such a loan is negotiable between the veteran/borrower and the lender.

Assumability of VA Loans

There are limitations on the assumability of VA loans. Loans for which commitments have been made on or after March 1, 1988 are not assumable unless:

1. the lender is notified of the proposed assumption prior to the transfer;
2. the loan is current;
3. the new purchaser has agreed to assume full liability for the repayment of the loan and all the veteran's obligations under the original loan documents; and
4. the new purchaser qualifies from a credit standpoint.

A lender is permitted to charge a fee in connection with processing an assumption request.

Release of Liability

For VA loans closed on or after March 1, 1988, all sales must be approved through a Release of Liability process. For a loan closed prior to March 1, 1988, a veteran/seller should request the necessary forms and instructions for release of liability prior to conveying title to a purchaser who assumes the VA loan. This request must be made to the VA office that guaranteed the loan.

VA Pamphlet 26-68-1, "Selling Your GI Home," is available at all VA Regional Offices. Lenders, title and escrow companies, real estate licensees and service organization representatives are urged to order the pamphlet for distribution to veterans.

Veterans are reminded that they are still legally liable to the Government on their VA loan even though they sell the property and the loan is assumed, *unless* VA releases the veteran in writing from liability.

Veterans should be certain that anyone assuming their VA loan agrees in writing on the sales agreement that he is willing to apply and qualify for the veteran's release of liability prior to the veteran conveying title to the property.

In the event the assuming purchaser of the veteran's VA loan does not qualify for assumption of the loan, the veteran and the assuming purchaser will be notified of such by the VA.

If the person buying the veteran's property obtains other financing and the VA loan is paid in full at close of escrow, the veteran may then have loan guaranty eligibility restored. However, a Release of Liability alone will not automatically restore entitlement. See "Restoration of Entitlement" below.

Restoration of Entitlement

VA can restore a veteran's entitlement to loan guaranty benefits after the property has been disposed of and the prior loan has been paid in full. Even if the property has not been sold, there can be a *one-time* restoration if the veteran has repaid the prior VA loan in full. After this one-time restoration, a future restoration must be preceded by disposal of all property previously financed with VA loans.

VA can restore a veteran/seller's entitlement and release the veteran from liability to VA when an immediate veteran/transferee has agreed to assume the outstanding balance on the loan and consented to use of his/her entitlement to the same extent that the entitlement of the veteran/transferor was used originally. The veteran/transferee and the property must otherwise meet the requirements of the law.

If VA has suffered a loss on a loan, the loss must be paid in full before entitlement can be restored.

Supplemental Servicing

VA is committed to assisting veterans who find themselves in temporary financial difficulty and default on their VA loan payments.

While VA does not relieve mortgagees of their primary loan servicing responsibilities, VA conducts appropriate supplemental servicing without specific requests from mortgagors or mortgagees. When a loan becomes three months delinquent, holders are required to file a Notice of Default showing the amount delinquent, the types of contact made with the mortgagor, the reason(s) for default, a summary of the holder's servicing activities, and a recommendation as to whether further indulgence is warranted. Upon receipt of this Notice of Default, a VA loan guaranty technician reviews it for adequacy of servicing and to ascertain whether any personal supplemental servicing should be undertaken at that time. At minimum, contact is made with the veteran/borrower by letter. This contact serves the two-fold purpose of communicating, at an early date, VA's interest in having the veteran make satisfactory arrangements to pay the arrearage and of providing the veteran with the name and address of the VA's Regional Office of jurisdiction, as well as the name and telephone number of a responsible VA loan servicing supervisor. If personal supplemental servicing is warranted and provided, it is the VA's objective to assist the borrower through financial counseling and the development of special repayment plans to reinstate the loan to good standing.

Lending Agencies

Any bank, savings and loan association, insurance company, mortgage company, or other lending agency may make a VA loan.

Procedure

The first step for the veteran planning to negotiate a veteran's guaranteed loan is to find the property. If a deposit is paid to bind the deal, the deposit agreement usually provides for the return of the deposit in case of failure to obtain a VA loan. The next step is to present the proposition to a bank or other lending agency. Every veteran carries a potential loan guaranty in his or her discharge papers. Supervised lenders and non-supervised automatic lenders approved by VA may process and complete most loans, automatically committing VA to a guaranty.

The property is then checked by an appraiser who must be one of a panel qualified by VA. VA's CRV (cost: $350 minimum) then goes to the prospective lender and this bank or lending agency decides whether it will approve and make the loan.

Web site: http://www.vba.va.gov/bln/loan/veteran.htm

CALIFORNIA VETERANS FARM AND HOME PURCHASE PROGRAM

Purpose

In recognition of veterans' sacrifice and service, the California Legislature established the Veterans Farm and Home Purchase Program (Cal-Vet) in 1921. The program provides low-cost, low-interest financing so that an eligible veteran can purchase a home, farm or mobilehome in California for use as a primary residence. (Cal VA Web site: http://www.ns.net/cadva)

The First Loan

Owen W. Myers, a 100% disabled World War I veteran, obtained the first Cal-Vet loan on June 30, 1922. The loan enabled Mr. Myers to purchase a home on the east side of Los Angeles for $4,120.00. The twenty-year loan, at 5% interest, required payments of $25.94 per month. Mr. Myers paid the loan in full in fifteen years.

Benefit Provided

The Cal-Vet program can fund a home, farm, or mobilehome loan under a contract of sale arrangement. Loan costs and down payment are low. The maximum loan amount varies with the type of property (home, farm, manufactured home), the purchase price and the cost of housing in the area/county. (The highest home loan amount is currently $250,000.) A veteran/borrower or agent should contact Cal-Vet for current information in this regard.

Up to an additional $5,000 in loan amount may be granted for a home equipped with an active solar energy heating device.

Source of Funds

Cal-Vet loan funds are obtained through the sale of both State of California general obligation bonds and veterans' revenue bonds. These bonds are repaid by veterans participating in the loan program.

Interest Rates and Loan Terms

The interest rate on Cal-Vet loans is variable, depending on bond expenses and program administration costs. The interest rate has never been above 8 percent.

By law, Cal-Vet must review the interest rate once each year. Ninety days' written notice must precede any increase in the interest rate.

New Cal-Vet loans are initially based on a 30-year loan term for single family residences. A more limited term may be necessary in individual cases. A loan for the purchase of a mobilehome in a park will normally have a repayment period between 10 and 20 years, depending upon the age, quality and condition of the mobilehome and certain characteristics of the park.

A veteran may make a written request for a shorter loan term. The term of a loan does not affect the interest rate.

Eligibility

Basic laws governing eligibility:

1. Release from active duty under honorable conditions.
2. At least 90 days service on active duty, unless:
   a. discharged because of a service-connected disability;
   b. eligibility to receive a campaign or expeditionary medal; or
   c. called to active duty from the Reserve or National Guard due to a Presidential Executive Order during a time when the United States was engaged in a military conflict and released under honorable conditions after serving less than 90 days. Note: Service solely for training does not qualify.

Unless the United States government authorized a campaign or expeditionary medal for the veteran's period of active duty, at least one day of active service must have been during one of the following "war" periods:

- **Operation Restore Hope.** Veterans who served or worked in direct support to troops in Somalia (regardless of the number of days on active duty).
- **Operation Desert Shield and Operation Desert Storm.** August 2, 1990 through a date yet to be determined.
- **Vietnam Era.** August 5, 1964 through May 7, 1975.
- **Korean Period.** June 27, 1950 through January 31, 1955.
- **World War II.** December 7, 1941 through December 31, 1946.

A veteran who was called to active duty from the Reserve or National Guard by Presidential Executive Order while the United States was engaged in a military conflict need not have served in the theater of operations, or have received a campaign or expeditionary medal, or have served 90 consecutive days on active duty to be eligible for Cal-Vet benefits.

Active duty personnel need only provide a statement of satisfactory performance from the military indicating their character of service and verifying their qualifying dates of service.

Veterans who are eligible for military retirement, or receiving military retirement pay, may have dual eligibility if they purchased a farm or home through Cal-Vet while on active military duty. The original purchase contract must have been paid in full and the veteran must have served during more than one period for which eligibility is granted. Veterans with active duty during more than one period for which eligibility is granted, with a break in service between the periods of eligibility, also may have dual eligibility.

Cal-Vet may also acquire an assignment of an Indian veteran's leasehold or beneficial interest in trust land for the purpose of entering into a contract with the Indian veteran for the acquisition of a home, farm, or mobilehome on trust land.

The un-remarried surviving spouse of an eligible veteran may apply for a Cal-Vet loan if the veteran:

1. died after filing an application for a Cal-Vet loan;
2. died, before or after discharge from active duty, from injuries sustained in the line of duty; or

3. is being held as a prisoner of war or has been designated by the armed forces as missing in action.

The pertinent military service documents (primarily the DD-214 discharge document) must establish eligibility. If necessary, Cal-Vet may require additional evidence.

Military service solely for the purpose of processing, physical examination, or training does not qualify the veteran for a Cal-Vet loan. A student at a military academy who fails to complete the course of study and does not serve on active duty cannot qualify.

Federal Recapture Tax for Veterans' Revenue Bonds

Recipients of Cal-Vet loans funded from proceeds of veterans' *revenue* bonds may be subject to a Federal recapture tax. This tax would become due only if:

1. the property were sold or refinanced during the first nine full years following the funding of the Cal-Vet loan;
2. there was a gain on the sale; and
3. the veteran (seller) has current income above a specified threshold.

The purpose of the federally imposed tax is to repay the government for some of the tax exempt benefits associated with revenue bond funds. It should be noted that, due to the way the federal law is written, very few veterans pay recapture tax.

There is no recapture tax liability if the Cal-Vet loan is funded from the proceeds of veterans' *general* obligation bonds.

Refinance Restrictions

Under federal law, Cal-Vet loan funds are rarely used to refinance existing loans. The exceptions are:

- interim loans (bridge loans or similar temporary initial financing);
- construction period loans.

It is the responsibility of the veteran to assure that interim or construction financing complies with federal law governing refinancing.

Application Procedure

In order to qualify, a completed Cal-Vet loan application must be received in the local district office prior to completion of the purchase or acquisition of an interest of record in the property to be financed with a Cal-Vet loan.

The above rule does not apply if:

1. the veteran has an interest of record in a building site;
2. the dwelling has not been completed, and
3. a certificate of occupancy has not been issued.

Cal-Vet will prequalify potential loan applicants at local district offices at no cost to the veteran. Prequalification will determine if the veteran is militarily eligible and financially qualified for the loan amount requested, and provide an estimated monthly payment. A copy of the DD214 will assist with the prequalification process.

Cal-Vet requires that the eligible applicant be qualified financially for the loan requested. District offices may provide credit guideline information prior to submission of a loan application.

A loan application package, as well as assistance in completing the forms, can be obtained from any Cal-Vet office, or from local County Veteran Services Offices.

After a completed loan application package is received, Cal-Vet can process a typical loan request in 35 calendar days or less.

Loan Processing Fees

Cal-Vet charges a $50 application fee. There are no "points" charged to the buyer or seller. The only other fee collected prior to close of escrow is for completion of the appraisal. If a Cal-Vet appraiser performs the property appraisal, the cost will be $300. Fees charged by outside appraisers may vary. The appraisal fee must be paid at the time the appraisal is conducted.

Secondary Financing

Cal-Vet may consent to secondary financing at the time of purchase to supplement the Cal-Vet loan. The combined financing cannot exceed 90 percent of the appraised value of the property. Also, the secondary lender must subordinate to Cal-Vet's interest by completing and returning Cal-Vet's subordination agreement. This document must be submitted before a loan package can be forwarded for funding.

Construction Loans Available

Cal-Vet provides funds to purchase a building site and construct a home.

Cal-Vet must approve the site that is owned, or will be purchased, by the veteran. Qualifying sites include: undeveloped sites/acreage; lots in subdivision developments; sites in non-profit, self-help developments; and sites on Indian trust lands where the Indian veteran can assign a leasehold or beneficial interest in the site. Condominiums, duplexes, townhouses, farms, and mobilehomes in parks do not quality.

Construction of the structure must be performed by a California licensed contractor. The contractor will be required to purchase a surety performance and payment bond.

Special Loan Conditions

The veteran, or a member of the veteran's immediate family, as defined by law, must occupy the property within sixty days after signing a Cal-Vet loan contract and must continue to reside in the property as the principal place of residence until the loan is paid in full or the property is sold.

There are two possible exceptions to the residency requirement. An exception concerning farm properties will be considered only if the veteran will be personally cultivating, harvesting crops or tending livestock. An exception can also be considered after the veteran has purchased and occupied a property and has then shown good cause for not residing in the home. This would require a signed Cal-Vet Waiver of Occupancy. All requests for a Waiver of Occupancy must be submitted in writing and must comply with Federal laws governing the use of tax-exempt bonds.

The transfer, assignment, encumbrance or rental of Cal-Vet property is prohibited without Cal-Vet's prior written consent.

If a Cal-Vet loan is prepaid in full within the first two years, the purchaser shall pay two percent of the original loan amount as a prepayment or service charge.

Special Loan Programs

Some veterans may qualify for specialized Cal-Vet loans. These include deferred principal payment loans for purchasers meeting certain income criteria, and conditional commitment loans to purchase homes in need of rehabilitation.

Subsequent Loan

A veteran may apply, under the same terms and conditions described above, for a subsequent Cal-Vet loan if the veteran:

1. has sold a Cal-Vet property;
2. has divested his/her interest in a Cal-Vet property through divorce or dissolution of marriage; or
3. has dual eligibility (active duty during more than one qualifying service period) and a previous Cal-Vet loan has been paid in full.

Fire and Hazard Insurance

With the exception of condominium units with master insurance policies and mobilehomes, Cal-Vet contracts with insurance companies for fire and hazard insurance on all Cal-Vet properties. Broad coverage, including protection against abnormal earth movement, is provided on dwellings and appurtenant structures. The veteran must pay a deductible, currently $100.00, on each insured loss/claim. Premium payment is included in the monthly installment.

Disaster Coverage

The Cal-Vet Disaster Indemnity and Catastrophe Program provides low cost protection against some perils not covered by fire and hazard insurance. Covered perils include earthquake and flood. All Cal-Vet purchasers are required to participate in this program, with payment billed each spring. For each loss, the deductible is $250.00.

Notice

Up-to-date information may be obtained by calling Cal-Vet Home Loans at 800-952-5626, on the Net at http://www.ns.net/cadva, or any local Cal-Vet office.

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